



# Forest Carbon Partnership Facility

## 6. Discussion of Methodological Framework of the Carbon Fund

Tenth Meeting of the Participants Committee (PC10)

Berlin, Germany

October 18-19, 2011

# Outline of Presentation

- 1. Rationale for the proposed Standards Approach**
- 2. Proposed principles and elements for CF Methodological Framework**
- 3. Summary of drafting group discussion**
- 4. Proposal to PC to create Working Group on Methodological and Pricing Framework**

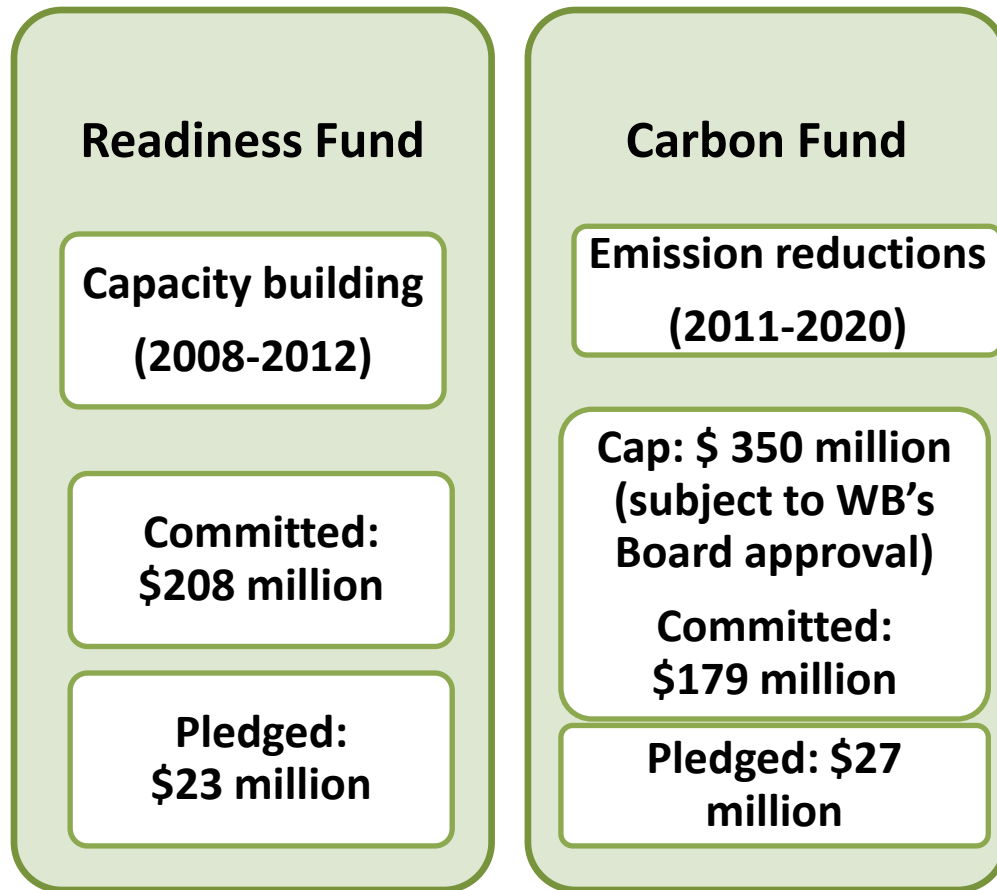
# Carbon Fund Methodological Framework and Role of PC

- FCPF Charter Section 11.1 (i): “On the basis of the recommendations from the Facility Management Team, providing guiding principles on the key methodological framework on REDD”
- ... and in (f): the PC “adopts policy guidance on pricing methodologies for ERPAs”
- Goal set by Carbon Fund Participants is to consider methodological and pricing guidance in PC 12 in June 2012
- This session presents early thinking from informal discussions

# Methodological Framework is Needed by the CF, in order to:

- Build on the foundation of REDD+ country R-Packages to generate high-quality and sustainable “emission reductions” (ERs) of value to CF Participants and REDD Country Participants
- Be consistent with emerging guidance from the UNFCCC, and potentially other regimes, for addressing safeguards, core elements of REDD+, etc.
- Provide early guidelines to REDD+ countries on how CF intends to provide consistency in assessment of “ER Program” proposals (i.e., large-scale emissions reduction programs)

# A Little Background on the Carbon Fund, FCPF's Second Mechanism



## CARBON FUND PARTICIPANTS

1. Australia
2. BP
3. CDC Climat
4. European Commission
5. Germany
6. Norway
7. Switzerland
8. The Nature Conservancy
9. United Kingdom
10. United States

Carbon Fund became operational  
in May, 2011

# Objectives of the Carbon Fund

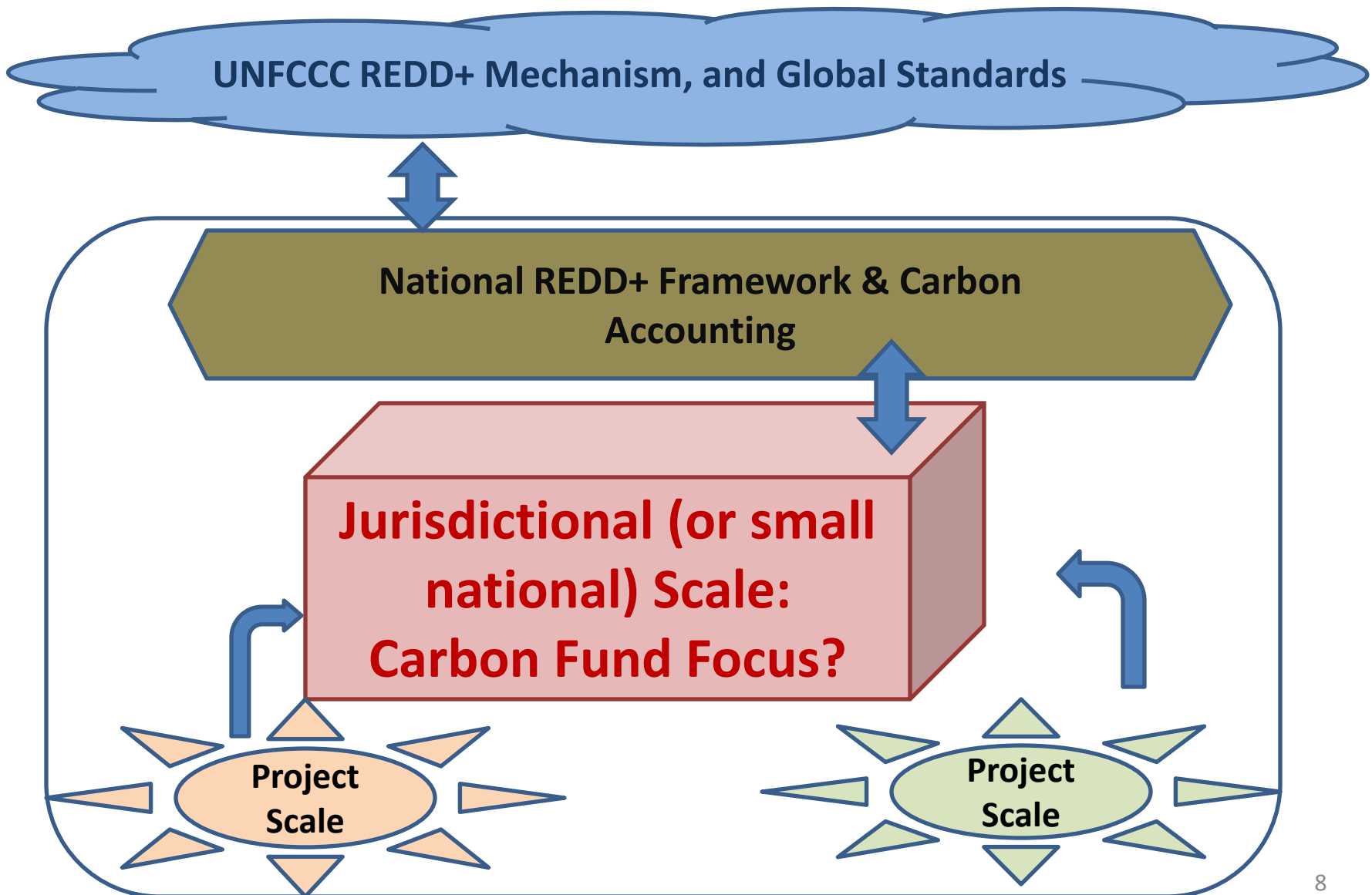
- **Mandate**
  - **Pay for Emission Reductions from REDD+ programs and deliver them to the Carbon Fund Participants**
- **Objectives**
  - **Kick start large-scale, performance-based payments, and produce useful experiences through a Public – Private Partnership**
  - **Deliver Emissions Reductions generated by REDD+ programs**
  - **Serve as a catalyst for larger resources for REDD+**

# Carbon Fund Working to Scale Up REDD+ Activities on the Ground

- **Most early REDD+ transactions rely on a “project approach,” which operationally has advantages:**
  - Normally only a few landowners
  - CDM or VCS methodology ready to use
- **... and disadvantages:**
  - Difficult to scale up to larger regions
  - Usually focused only on 1 or 2 specific drivers.
- **Carbon Fund focus, however, is on about 5 ERPs on a large scale -- an innovative approach, which needs demonstration**
  - Could be administrative jurisdictions like districts, provinces, or larger regions
  - Mix of policies, investments, and financial structures
  - Multi-stakeholder approach



# Carbon Fund ERP Scale: Potentially Midway Between National and Project





# Informal Technical Discussions Among Informal Drafting Group Of PC Members

- **Discussions of CF Method. Framework and Pricing Approach at CF meeting in Barcelona, May, 2011, then conference call.**
- **Video-conference September 1-2<sup>nd</sup> exchanged PC member and Observer views:**
  - **General support for using standards + indicators, + potentially some methods guidance**
  - **Methodological Framework should help determine if a proposed ER Program (ERP) meets a high minimum standard**
  - **Distinguishing 2 levels of quality of ERPs could be useful**
  - **A Pricing Approach could combine fixed and floating portions; and could reflect quality of the ERPs**
- **Updated summary of discussions follows**

## **Proposal: (1) Use a Standards Approach to Define Quality of ERs, and Not Develop CDM-Like Methodologies**

- Readiness Fund is successfully using a qualitative standard to assess each R-PP component**
- R-Package discussion: may use similar approach**
- REDD+ countries, and CDM and voluntary market project developers, find developing detailed methodologies complex , costly, and takes 2-3 years**
- CF Method. Framework probably needs to produce summary protocols or guidelines on use of existing methodologies, or minimum analytic requirements**

## **Proposal: (2) Rationale for a Standards Approach to CF Methodological Framework**

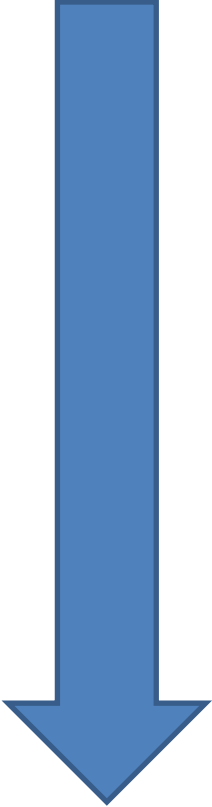
- Use of a single quality and single price for ER Program carbon benefits contradicts the existing wide variety, quality, and price of carbon finance projects**
- Country R-PPs in Readiness Fund have widely different institutional arrangements, REDD+ strategies, MRV system designs, etc.**
- By differentiating quality and risk (and thus price of ERs), both REDD+ country suppliers and CF financial contributors maximize flexibility and reward higher-quality ERs**

# Standard-Driven Overall Approach:

Principles → Standards → Indicators → Methods

## Concept of Approach:

- UNFCCC will ultimately set methods for REDD+, but in the future.
- CDM, VCS and other existing methods very complex for a national scale.
- FCPF has used standards approach to assess R-PPs successfully.

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- Principles, or Elements: State the desired outcome, and codify the intent of a standard for evaluating a program.
  - Standards (or criteria): Identify the conditions that need to be met to deliver on a principle. The benchmark against which a program is evaluated.
  - Indicators: Quantitative or qualitative parameters that can be achieved and can be verified. The “metric” for evaluating the standard.
  - Methods: Agreed analytic approaches or tools used to generate the data and estimates of parameters (like forest cover change over time) that make up indicators.

# From UNFCCC Principles, 6 Potential Methodological Framework “Elements” (Affecting the Quality of Emissions Reductions)

Called “elements” to distinguish them from UNFCCC or other “principles”

## Potential Emissions Reduction Quality Elements

- 1) Data Quality: Accuracy, IPCC Tier, etc.
- 2) Methods Quality: Capacity to measure and report ERs; methods for reference emission level (REL); etc.
- 3) Consistency with national reference emission level (REL)
- 4) Consistency with national MRV system
- 5) Measures to address risk of reversals of ERs (non-permanence)
- 6) Measures to address risk of displacement of emissions (leakage)

Other elements needed ??

# From Carbon Fund Issues Note, 6 Programmatic “Elements” (Affecting the Quality of ER Programs)

## Potential Programmatic Elements

- 1) Submitted by government-endorsed entity
- 2) Consistent with emerging compliance standards of UNFCCC (and other regimes, to extent feasible)
- 3) Transparent stakeholder consultations
- 4) Social and Environmental safeguards and clear and transparent benefit-sharing mechanisms
- 5) Integrated in national framework managing sub-national programs
- 6) Consistent with emerging national REDD+ strategy

Other elements needed ?

# UNFCCC Core REDD+ Elements vs. Carbon Fund Potential Elements

UNFCCC Core Elements	Potential CF <u>Method. Framework</u> Emissions Reduction Elements	Potential CF <u>Programmatic</u> Elements
National strategy or action plan		1. Government endorsed 6. Consistent with <u>REDD+ strategy</u>
National forest reference emission level and/or forest reference level	Data Quality 1. Methods Quality 2. Reference level	5. Integrated in national framework
National forest monitoring system	4. MRV	
System for providing information on safeguards	5. Address reversals of ERs 6. Address displacement of ERs	3. <u>Stakeholder consultations</u> 4. Social and environ. <u>safeguards</u> , and benefits
		2. Consistent with UNFCCC

# Concept of Differentiated ERP Quality “Stages” (1)

(very preliminary ideas)

- 2 or more stages could offer simple range of differentiated products for funders/investors in ERPs, potentially with different prices.
- Provide incentives for continual improvement of ERP quality.

## Stage 1 ERP: High Quality, Meeting Standards

- Well-developed ER Program, methodology.
- Meets Programmatic Elements, and safeguards.
- Moderate program and investment risks.
- ERP price reflects Stage 1 quality.



*Potential for evolution over time*

## Stage 2 ERP: Enhanced Quality, Often Above Standards

- More robust ER Program, methodology.
- Many Programmatic Elements above the standard. Safeguards met.
- Additional benefits provided: biodiversity, rural livelihood, etc.
- Less program and investment risk.
- ERP price reflects Stage 2 quality.



# ERP Quality “Stages” (2):

## Hypothetical Examples to Show 2 Levels of Quality

### Example A: Arangle River ER Program (Stage 1)

- **REDD+ Activities:** Landscape Management of Cropland Expansion, & Immigration Frontier Deforestation.
- **Data:** Uses IPCC Tier 1 and Tier 2 default data. New sampling started.
- **Methods:** emerging methods for landscapes.
- **Government endorsement of Program is uncertain. Risks seem high.**

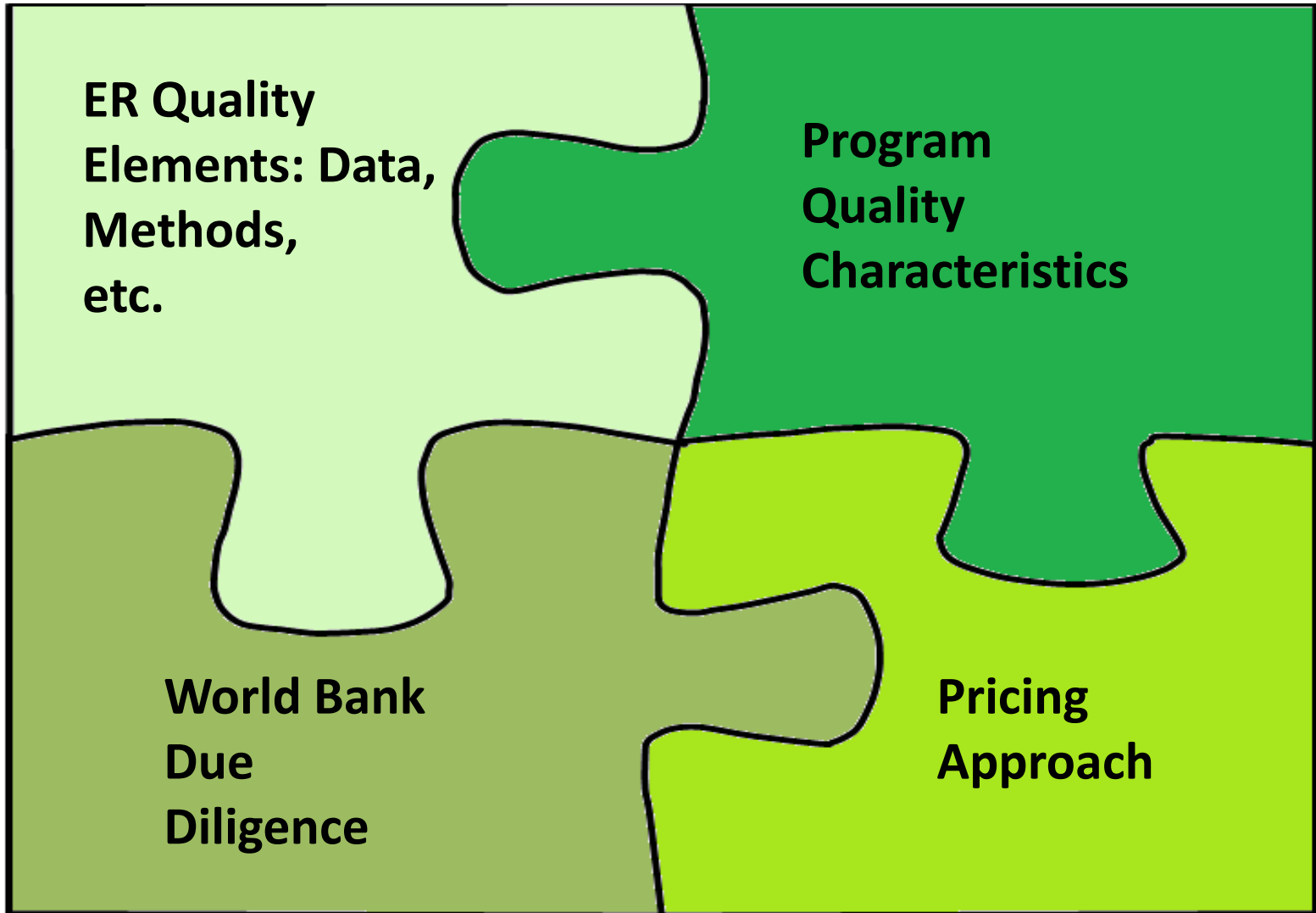
### Example B: Borong Province ER Program (Stage 2)

- **REDD+ Activities:** regional highway expansion via planned development and high-productivity agriculture. SFM in well-managed forests.
- **Uses in-country IPCC Tier 3 data, with good time series and coverage.**
- **Methods:** forest inventory. Well-known model, validated for 12 years.
- **Country is leader in subnational to national REL methods.**
- **Clear recognition of Program by government, which is a partner.**
- **Low risk overall.**

# Assessment of ER Program Submissions

- **CF could use one of several approaches:**
  - **Technical Advisory Panel review process to determine whether submitted ER programs meet the standards for CF elements**
  - **Another review approach**
- **Offers countries maximum flexibility in ER Program construction and presentation**

# ER Program Assessment Could Combine 4 Aspects



# Working Group on Methodological and Pricing Framework: Terms of Reference (TOR)

- **A PC resolution could:**
  - Organize a Working Group (WG) to explore options, and make recommendations to PC12 (June 2012)
- **Authorize the FMT to prepare TOR for and hire a facilitator**
- **Define WG participation, proposed as:**
  - 5 financial contributors to the Readiness Fund or the Carbon Fund
  - 5 REDD+ Country Participants
  - 1 civil society observer
  - 1 indigenous peoples and other forest dwellers observer.
- **WG discussions conducted :**
  - Two face-to-face meetings, tentatively in margins of PC11 and PC12
  - Roughly monthly conference calls and/or emails

## Methodological Framework Tasks, and Tentative Due Dates

Task	Tentative Due Date
Create ad hoc <u>TAP</u> to support Working Group: review of other regimes' standards, methods; pricing approaches	December, 2011
Assess and reach agreement on the <u>elements</u> of the standards approach	January 2012
Propose <u>standards</u> , indicators and methodological implications for each agreed element	March 2012
Propose an <u>assessment</u> process and criteria for ER Programs submitted to the Carbon Fund	March 2012
<u>Propose methodological framework</u> , and <u>pricing approach</u> , to the PC	June 2012

Source: Table 1 in draft Methodological Working Group TOR

## Valuation and Pricing Approach Tasks, and Tentative Due Dates

Task	Tentative Due Date
Request TAP to support on valuation and pricing tasks	October 30, 2011
Assess valuation methods, and then propose a method	January 2012
Assess base price combinations of fixed and floating portions	January 2012
Assess adjustments to price for quality: linkage to the methodological framework; adjustment for additional benefits	March 2012
Propose an assessment process and criteria for ER Programs submitted to the Carbon Fund	March 2012

Source: Table 2 in draft Methodological Working Group TOR

# Potential Timeline for CF Methodological Framework Development

Step in Process	Date	Product Delivered
Organize Working Group	Nov. 2011 – July, 2012? Conference calls periodically. 2? meetings	Feedback to FMT on ongoing Framework drafts. Resolve key issues.
Draft Methodological Framework	June 1 <sup>st</sup> , 2012	Framework on web for comments
Report on progress to PC11	Late March, 2012	Presentation. WG meeting face-to-face
CF discussion and approval of Framework	Late June, 2012 PC12 meeting	WG meeting. Revised draft of Framework
Revision of Framework	Report on progress to Oct., 2012 PC13	Revised Framework

# Potential Key Design Issues for Discussion

1. Is proposed approach of developing standards and indicators a reasonable basis for the Methodological Framework of the Carbon Fund?
2. Do the draft major elements cover what is essential?
3. Is the relationship to the ideas for a Pricing Approach reasonable?
4. Can you provide guidance on the balance between the need for consistency across different ER Programs, vs. flexibility for countries?